

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 IGA-02 AID-05 EB-07 EPG-02 TRSE-00 STR-04
OMB-01 CEA-01 COME-00 FRB-03 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 FEA-01 DHA-02 ACDA-07 IO-13
PC-01 /119 W

-----078427 161258Z /41

R 152130Z JUL 77

FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 8424
INFO AMEMBASSY BOGOTA
USCINCSO QUARRY HTS CZ
USCINCLANT NORFOLK VA

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 7101

E.O. 11652: GDS

TAGS: PFOR, PINS, ENRG, EGEN, EINV, PORG, VE

SUBJECT: THIS WEEK IN VENEZUELA

REF: CARACAS 6787

SUMMARY: THE JULY 1-7 AD PRIMARY SETS THE FINAL
STAGE FOR THE PEREZ ADMINISTRATION. THERE HAS BEEN
SOME ACRIMONY IN THE CLOSING DAYS OF THE AD CAMPAIGN,
BUT NO SPLIT AS THE PARTY PREPARES TO VOTE FOR ITS
PRESIDENTIAL CANDIDATE ON SUNDAY. GOV'S ANTI-
INFLATIONARY PACKAGE RAISES BASIC ISSUE OF RELATION-
SHIP BETWEEN THE PUBLIC AND PRIVATE SECTOR IN
VENEZUELA. DISSCOVERY OF GUERRILLA CAVES IN EASTERN
VENEZUELA FOCUSES PUBLIC ATTENTION ON THE EXISTENCE OF
A SMALL BUT CONTINUING RURAL INSURGENCY. LUXURY
IMPORTS MAY BE RESTRICTED. SCARCE FOOD ITEMS TO BE
IMPORTED DUTY FREE UNTIL OCTOBER ..K VEENEZUELAN
FOREIGN EXCHANGE

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RESERVES AT RECORD HIGH. END SUMMARY.

1. THE JULY 17 AD PRIMARY SETS FINAL STATE FOR PEREZ
ADMINISTRATION. PRESIDENT PEREZ' ADMINISTRATION DURING ITS
FIRST THREE YEARS IN OFFICE HAS BEEN CHARACTERIZED BY A
STRONG CHIEF EXECUTIVE WHO HAS BECOME THE DOMINANT POLITICAL

FIGURE OF THE NATION. PARTIALLY DUE TO THE INSTITUTIONAL NATURE OF THE PRESIDENCY, BUT ALSO BECAUSE OF CARLOS ANDRES PEREZ' PERSONALITY. THE PRESIDENCY, HAS, AS WELL, HAD A SEPARATE INSTITUTIONAL LIFE FROM THAT OF THE AD PARTY. TWO DAYS HENCE, HOWEVER, ON JULY 17, WHEN THE AD PRESIDENTIAL CANDIDATE IS CHOSEN, THE RELATIONSHIP BETWEEN THE PRESIDENT, HIS PARTY, AND THE OTHER MAJOR POLITICAL INSTITUTIONS WILL UNDERGO A SIGNIFICANT CHANGE. PUBLIC ATTENTION AND SOME OF THE PRESIDENT'S POWER WILL BEGIN TO SLIP FROM HIS GRASP. REFLECTING THESE DEVELOPMENTS, CARACAS IS RIFE WITH RUMORS

OF IMMINENT CABINET CHANGES(CHANGES THE PRESIDENT HAS REFUSED TO CONFIRM OR DENY --GIVING THEM FURTHER CREDENCE) SHORTLY AFTER THE AD PRIMARY ELECTION. OBSERVERS BELIEVE THAT PEREZ MAY WELL DECIDE TO PLACE SOME TRUSTED CONFIDANTS IN KEY MINISTRIES TO BOLSTER HIS POSITION WITHIN THE GOVERNMENT AND VIS-A-VIS THE AD PARTY. CABINET SHIFTS OR NO, HOWEVER, CARLOS ANDRES PEREZ IS CERTAINLY CAREFULLY CALCULATING HIS MOVES TO MAXIMIZE HIS OWN CONTINUING AUTHORITY AND TO PLACE HIMSELF IN THE MOST ADVANTAGEOUS POSITION TO RETAIN INFLUENCE, IF NOT ABSOLUTE CONTROL, OVER AD ONCE HE LEAVES OFFICE. THUS, IN THE POST JULY 17 PERIOD, THE GOV WILL FIND ITSELF, ON THE ONE HAND, FURTHER REMOVED FROM THE AD PARTY APPARATUS, PARTICULARLY IF PINERUA ORDAZ BECOMES THE CANDIDATE, AND, ON THE

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OTHER, CONSTRAINED BY THE EXISTENCE OF THE PARTY MACHINERY WORKING ON BEHALF OF THE NEW CANDIDATE. ALL OF THIS POINTS TO SUBTLE BUT REAL CHANGES IN HOW THE PRESIDENT WILL OPERATE POLITICALLY. HE MAY BE LESS LIKELY TO UNDERTAKE MAJOR DOMESTIC INITIATIVES, AND CONSEQUENTLY BECOME MORE INTERESTED IN AN ACTIVE FOREIGN POLICY WHERE HE WILL RETAIN GREATER LATITUDE. IN ANY CASE, THE POLITICAL CLIMATE AND MIND SETS IN VENEZUELA WILL NOW UNDERGO IMPORTANT SHIFTS AS THE INCUMBENT PRESIDENT FINDS HE MUST SHARE THE LIMELIGHT WITH HIS PARTY'S NEW ASPIRANT TO HIS JOB.

2. THE AD RACE - SOME ACERIMONY, BUT NO SPLIT AS THE PARTY VOTES. IN THE FINAL WEEK OF THE AD PRESIDENTIAL RACE, UNDERDOB JAIME LUSINCHI ACCUSED THE PINEURA ORDAZ FORCES OF IRREGULARITIES BY ATTEMPTING TO ILLEGALLY DISQUALIFY LUSINCHI POLL WATCHERS. PINEURA BLANDLY DENIED THE CHARGES, BUT SAID HE WOULD NOT OBJECT TO MAKING CERTAIN THAT LUSINCHI'S FORCES HAD ALL THE POLL WATCHERS THEY WANTED. BY WEEK'S END, BOTH ASPIRANTS HAD MET AND AGREED TO ABIDE BY THE RESULTS OF THE JUNE 17 ELECTIONS WHEN AN ESTIMATED 1.3 MILLION ACCION DEMOCRATICA PARTY MEMBERS WILL TROOP TO THE POLLS. AS A SIGN OF HIS CONFIDENCE

IN VICTORY, AND IN KEEPING WITH AN EARLIER CAMPAIGN
PROMISE, THE PINERUA CAMP ANNOUNCED THAT THE AD SECRETARY
GENERAL WILL POLL 69.53PCT OF THE TOTAL AD VOTE AND CARRY
ALL OF VENEZUELA STATES WITH THE EXCEPTION OF LUSINCHI'S
OWN ANZOATEGUI. COMMENT: TEMPERS FLARED A BIT AS THE
CAMPAIGN DREW TO ITS CLOSE, BUT BOTH CANDIDATES MANAGED
TO MAINTAIN A RELATIVE DEGREE OF CIVILITY TOWARD EACH
OTHER. BOTH REALIZE FULL WELL THAT A SPLIT COULD DO SERIOUS
HARM TO AD'S CHANCES AND NEITHER WISHES TO REPEAT THE 1967
EXPERIENCE WHICH COST AD THE PRESIDENTIAL PALACE. A WELL-
INFORMED AD POLITICAL OPERATIVE TELLS US THAT THE PARTY
MACHINERY PRIVATELY CALCULATES THAT PINERUA WILL WIN 73PCT
OF THE VOTE, WITH 20PCT GOING TO LUSINCHI AND 7PCT OF THE
1.3 MILLION PARTY MEMBERS NOT VOTING. HE ALSO SAYS THAT
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PINERUA WILL CARRY ALL AREAS EXCEPT ANZOATEQUI AND
AMAZONAS, AND THE CITIES OF BARQUISIMETO AND MARACAY.

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ACTION ARA-14

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ACDA-07 IO-13 PC-01 /109 W
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R 152130Z JUL 77
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 8425
INFO AMEMBASSY BOGOTA
USCINCSO QUARRY HEIGHTS CZ
USCINCLANT NORFOLK VA

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 7101

3. GOVERNMENT'S ANTI-INFLATIONARY PACKAGE RAISES BASIC
ISSUE OF RELATIONS BETWEEN PUBLIC AND PRIVATE SECTOR IN
VENEZUELA. IN PRESIDENT PEREZ' JULY 10 SPEECH TO

FEDECAMARAS (SEE CARACAS 6891), THE NATIONAL FEDERATION OF CHAMBERS OF COMMERCE AND INDUSTRY, THE PRESIDENT ANNOUNCED A SERIES OF MEASURES TO REDUCE INFLATIONARY PRESSURES THROUGH PRICE CONTROLS, CREDIT RESTRAINTS, GOVERNMENT SPENDING AND INCREASED RESERVE REQUIREMENTS FOR FINANCIAL INSTITUTIONS, AND SPECIAL MEASURES TO CONTROL SPECULATION IN REAL ESTATE BY PLACING CEILINGS ON SALES PRICES FOR NEW CONSTRUCTION. COMMENT: THE PRESIDENT'S SPEECH ADDRESSED NOT ONLY SPECIFIC ANTI-INFLATIONARY MONETARY MEASURES WHICH HAVE ATTRACTED THE MOST PRESS PLAY, BUT THE PRESIDENT ALSO LASHED OUT AT WIDESPREAD CORRUPTION IN BOTH THE PUBLIC AND PRIVATE SECTORS, CALLED FOR GREATER DEVELOPMENT EFFORT ON THE PART OF THE PRIVATE SECTOR, AND REITERATED HIS CALL FOR BASIC TAX MEASURES. THE SPEECH, IN ESSENCE, WAS AN ADMISSION THAT VENEZUELA'S DEVELOPMENT PROGRAM CAN NO LONGER BE FINANCED WITHOUT CUTTING BACK ON CONSUMPTION IN OTHER AREAS, AND THAT THERE COULD BE SERIOUS

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FUTURE PRESSURES ON THE SOCIAL FABRIC OF THIS SOCIETY UNLESS BOTH THE GOVERNMENT AND THE PRIVATE SECTOR CONTRIBUTE TO MEETING VENEZUELA'S DEVELOPMENT NEEDS. WHILE OUR ANALYSIS IS THAT BOTH MONETARY AND FISCAL MEASURES WILL BE REQUIRED TO GENERATE SUFFICIENT PRODUCTIVITY TO OVERCOME GROWING BUDGET AND BALANCE OF PAYMENT PROBLEMS, THERE IS NO INDICATION THAT PEREZ IS PREPARED TO TRY TO PUSH A REALISTIC TAX PACKAGE THROUGH CONGRESS. RATHER, HE CHOSE THE PATH OF LEAST RESISTANCE BY RELYING ON MONETARY MEASURES WHICH WERE ISSUED BY PRESIDENTIAL DECREE. THE TIMING OF THE SPEECH REFLECTS THREE DEVELOPMENTS: FIRST, A REALIZATION THAT THESE MEASURES ARE NEEDED NOW IF THEY ARE TO HAVE ANY EFFECTIVE IMPACT. SECOND, FOR MAXIMUM EFFECT, PEREZ HAD TO MOVE BEFORE THE AD PRIMARY ELECTION AFTER WHICH THE PRESIDENT'S INFLUENCE WILL SUFFER A GRADUAL DECLINE (SEE ITEM NO. 1). THIRD, WITH AN EYE TOWARD THE 1978 CAMPAIGN, PEREZ WAS REITERATING THE UNDERLYING IDEOLOGICAL COMMITMENT OF AD TO SOCIAL JUSTICE THROUGH USE OF GOVERNMENT ECONOMIC TOOLS-- A THEME THE NEW AD STANDARD BEARER WILL USE AS WELL. LABOR HAS ENDORSED THE NEW PROPOSALS, BUT MOST BUSINESSMEN, INCLUDING FEDECAMARAS, AS WELL AS THE COPEI OPPOSITION, HAVE BEEN CRITICAL.

4. DISCOVERY OF GUERRILLA CAVES IN EASTERN VENEZUELA FOCUSES PUBLIC ATTENTION ON EXISTENCE OF CONTINUING RURAL INSURGENCY. DURING THE LAST WEEK, THE CARACAS PRESS GAVE CONSIDERABLE PLAY TO THE DISCOVERY BY ARMY UNITS OF TWO CAVES IN ANZOATEGUI STATE BUILT BY RURAL INSURGENTS. THE CAVES WERE BUILT UNDERGROUND, WELL CAMOFLAGUED, AND CONTAINED FOOD, MEDICAL SUPPLIES AND ONE ALSO HAD AN ELECTRICAL GENERATING SYSTEM. THE CAVES WERE EMPTY AND THERE WAS NO

EVIDENCE THAT THEY HAD BEEN USED TO HOLD PRISONERS OR THAT
THEY HAD, IN FACT, EVER BEEN USED BY THE BUILDERS THEMSELVES.
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COMMENT: THE EMBASSY HAS LEARNED THAT GOV POLICE AUTHORITIES
LEAKED THE INFORMATION ABOUT THE DISCOVERY OF THE CAVES TO
THE PRESS AND THAT THE DISCOVERY TOOK PLACE LAST MONTH.
THE IMPORT OF THE STORIES POINTS UP THE FACT TO THE PUBLIC
THAT THERE STILL EXISTS AN ORGANIZED RURAL INSURGENCY.
THIS RUNS COUNTER TO THE STANDARD GOV PUBLIC POSITION THAT
THE REMANANTS OF THE 1960'S GUERRILLA BANDS ARE NOTHING
MORE THAN COMMON CRIMINALS. OUR INITIAL ASSESSMENT IS THAT
SMALL GROUPS OF RURAL GUERRILLAS HAVE ALWAYS CONTINUED TO FUNCTION,
AND THAT SOME ARE POLITICALLY MOTIVATED, BUT THAT THE LEVEL OF THREAT
IS NO GREATER THAN IT HAS BEEN OVER THE LAST SEVERAL YEARS. IT IS
MERELY RECEIVING MORE ATTENTION NOW. THE EMBASSY WILL BE SUBMITTING
A FULLER ANALYSIS OF THIS SUBJECT SHORTLY.

5. LUXURY IMPORTS MAY BE RESTRICTED. MINISTER OF DEVELOPMENT
ALVAREZ DOMINGUES INFORMED PRESS REPRESENTATIVES IN MARACAY JULY 14
THAT THE GOV SHORTLY WOULD PUBLISH A LIST OF LUXURY ITEMS WHOSE
IMPORT INTO VENEZUELA WOULD BE SUBJECT TO CONTROLS. WHILE DECLINING
TO GIVE SPECIFIC EXAMPLES, HE REPORTEDLY SAID ITEMS SUCH AS MOBILE
HOME, YACHTS, JEWELRY AND HI-FI EQUIPMENT WOULD BE INCLUDED. THE GOV
HAS EXPRESSED INCREASING CONCERN AT THE RAPID GROWTH OF IMPORTS, THE
VALUE OF WHICH MAY EXCEED \$8 BILLION THIS YEAR, ACCORDING TO CENTRAL
BANK REPORTS. THE ANTI-INFLATIONARY PACKAGE ANNOUNCED EARLIER THIS
WEEK WAS AIMED IN PART AT REDUCING THE DEMAND FOR IMPORTED GOODS.

6 SCARCE FOOD ITEMS MAY BE IMPORTED DUTY FREE UNTIL OCTOBER 23.
PRESIDENT PEREZ ANNOUNCED JULY 11 THAT THE PERIOD DURING WHICH FOOD
ITEMS IN SHORT SUPPLY MAY BE IMPORTED FREE OF DUTY WOULD BE EXTENDED
UNTIL OCTOBER 23. THE GOV HAS PERMITTED THE IMPORT OF SELECTED FOOD
ITEMS FREE OF DUTY AND OTHER CONSTRAINTS SINCE MID APRIL TO
ALLEVIATE SHORTAGES WHICH DEVELOPED SUDDENLY DURING THE FIRST
QUARTER OF THE YEAR.

7 VENEZUELAN FOREIGN EXCHANGE RESERVES AT RECORD HIGH.
THE CENTRAL BANK REPORTED THAT VENEZUELA'S HOLDING OF
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GOLD, FOREIGN EXCHANGE AND OTHER RESERVE ASSETS ON JUNE 30
TOTALLED \$9.015 BILLION, A RECORD HIGH. THE RESERVE LEVEL HAS INCREASED
BY APPROXIMATELY \$700 MILLION DURING THE PAST TWO MONTHS, AS

VENEZUELA DREW DOWN ON A MASSIVE \$1.2 BILLION LOAN EXTENDED BY AN INTERNATIONAL CONSORTIUM OF BANKS. MANY OBSERVERS EXPECT RESERVES TO STABILIZE AT APPROXIMATELY THIS LEVEL FOR THE NEXT COUPLE OF MONTHS.

8. OTHER REPORTING THIS WEEK INCLUDED IMPLEMENTATION OF STATUTORY CONDITIONS OF ELIGIBILITY FOR MILITARY ASSISTANCE (CARACAS 6935 AND A-100), 32ND UNGA (CARACAS 6915), REQUEST FOR MULTILATERAL INFORMATION (CARACAS 8348), FOLLOW UP TO PEREZ STATE VISIT (CARACAS 6959), GOV REACTION TO CHILEAN HIJACKING (CARACAS 8322), PLO MEMBESHIP ISSUE IN ECWA (CARACAS 8321), NIEHOUS CASE (CARACAS 6883), THE LLANOS, AMAZONAS AND LARA TRIP REPORT (CARACAS A-98), MINISTER OF ENERGY VISITS GERMANY AND UK (CARACAS 6892), VENEZUELAN TAX ON EXIM (CARACAS 6957), GERMAN-VENEZUELAN DISCUSSION ON CIEC FOLLOWUP (CARACAS 7011), PROPOSED VISIT TO VENEZUELA BY SECRETARY KREPS (CARACAS 6890), AND PROPOSED INTER-AMERICAN TRAINING CENTER FOR PARK AND WILDLIFE PERSONNEL (CARACAS 6812).
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